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S E C R E T SECTION 01 OF 07 RIYADH 004784

DEPT PASS TO EXIM ELECTRONICALLY
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TREASURY FOR OASIA
COMMERCE FOR 4520/IEP/ANESA/ONE/DGUGLIELMI
LONDON FOR TUELLER, PARIS FOR LEAF

E.O. 12958: DECL: OADR 1.6X6

TAGS: EFIN ECON PGOV PINR SOCI SA

SUBJECT: SAUDI ROYAL WEALTH: WHERE DO THEY GET ALL THAT MONEY?

¶1. (U) CLASSIFIED BY ACTING DCM ALBERT THIBAULT. REASON: 1.5
(B). THIS MESSAGE FULFILLS A POST REPORTING PLAN REQUIREMENT.

SUMMARY AND INTRODUCTION

¶2. (C) SAUDI PRINCES AND PRINCESSES, OF WHOM THERE ARE THOUSANDS, ARE KNOWN FOR THE STORIES OF THEIR FABULOUS WEALTH--AND TENDENCY TO SQUANDER IT. THIS CABLE EXAMINES THE MECHANISMS, NOT COUNTING BUSINESS ACTIVITIES, THROUGH WHICH SAUDI ROYALS OBTAIN THEIR MONEY. THESE MECHANISMS OFTEN PROVIDE THE SEED MONEY FOR ROYALS TO LAUNCH LOCAL AND INTERNATIONAL BUSINESS VENTURES. A SUBSEQUENT CABLE WILL EXAMINE THE BUSINESS ACTIVITIES OF SAUDI ROYALS.

¶3. (S) THE MOST COMMON MECHANISM FOR DISTRIBUTING THE NATION'S WEALTH TO THE ROYAL FAMILY IS THE FORMAL, BUDGETED SYSTEM OF MONTHLY STIPENDS FOR ALL MEMBERS OF THE AL SAUD, MANAGED BY THE MINISTRY OF FINANCE'S "OFFICE OF DECISIONS AND RULES." THE STIPENDS RANGE FROM \$270,000 PER MONTH ON THE HIGH END TO \$800 PER MONTH FOR THE LOWLIEST MEMBER OF THE MOST REMOTE BRANCH OF THE FAMILY. BONUS PAYMENTS ARE AVAILABLE FOR MARRIAGE AND PALACE BUILDING. THE EMBASSY ESTIMATES THAT THE STIPENDS SYSTEM PUTS AN ANNUAL DRAIN OF ABOUT \$2 BILLION ON THE \$40 BILLION GOVERNMENT BUDGET.

¶4. (S) ASIDE FROM THE STIPENDS SYSTEM, A HANDFUL OF THE SENIORMOST PRINCES ENRICH THEMSELVES BY CONTROLLING SEVERAL BILLION DOLLARS IN ANNUAL EXPENDITURES IN "OFF-BUDGET" PROGRAMS. WITH NO MINISTRY OF FINANCE OVERSIGHT OR CONTROLS, THESE PROGRAMS ARE WIDELY VIEWED AS SOURCES OF ROYAL RAKEOFFS. AS CHARACTERIZED BY BILLIONAIRE PRINCE AL-WALID BIN TALAL (STRICTLY PROTECT) TO THE AMBASSADOR, THROUGH THESE OFF-BUDGET PROGRAMS, FIVE OR SIX PRINCES CONTROL THE REVENUES FROM ONE MILLION BARRELS PER DAY (B/D) OF THE KINGDOM'S EIGHT MILLION B/D OF CRUDE OIL PRODUCTION.

¶5. (S) OTHER WAYS SOME PRINCES OBTAIN MONEY INCLUDE BORROWING FROM THE BANKS, AND NOT PAYING THEM BACK. WITH THE POSSIBLE EXCEPTION OF NATIONAL COMMERCIAL BANK (NCB), WHICH HAS ALWAYS BEEN VIEWED HERE AS THE ROYAL FAMILY'S BANK, SAUDI BANKS GENERALLY TURN ROYALS AWAY UNLESS THEY HAVE A PROVEN REPAYMENT TRACK RECORD. PRINCES ALSO USE THEIR CLOUT TO CONFISCATE LAND FROM COMMONERS, ESPECIALLY IF IT IS KNOWN TO BE THE SITE FOR AN UPCOMING PROJECT AND CAN BE QUICKLY RESOLD TO THE GOVERNMENT FOR A PROFIT. ANOTHER COMMON MONEYMAKING SCHEME IS FOR INDIVIDUAL PRINCES TO "SPONSOR" SOMETIMES HUNDREDS OF EXPATRIATE WORKERS WHO ARE UNLEASHED TO FREELANCE ON THE LOCAL ECONOMY AND IN RETURN PAY THEIR ROYAL SPONSOR A SMALL MONTHLY FEE, USUALLY AROUND \$100.

16. (S) IN THE END, ROYALS STILL SEEM MORE ADEPT AT SQUANDERING THAN ACCUMULATING WEALTH. DESPITE THE HANDOUTS, THERE ARE MORE COMMONER BILLIONAIRES THAN ROYAL BILLIONAIRES IN THE KINGDOM. THE WEALTHIEST ROYALS AND THEIR PERSONAL FORTUNES BY OUR ESTIMATES ARE: AL-WALID BIN TALAL BIN ABD AL-AZIZ -- \$13 BILLION, KING FAHD -- \$10 BILLION, DEFENSE MINISTER PRINCE SULTAN BIN ABD AL-AZIZ -- \$10 BILLION, KHALID BIN SULTAN BIN ABD AL-AZIZ -- \$2 BILLION.

17. (S) ROYALTY HERE IS EXPECTED TO HAVE WEALTH AND THE TRAPPINGS OF POWER TO A CERTAIN DEGREE. FOR EXAMPLE, IMPORTANT ROYAL FAMILY MEMBERS HOLD 'MAJLISES' WHERE VISITORS WILL DISCUSS THEIR CONCERNs AND SEEK ROYAL INTERCESSION WITH AUTHORITIES. CROWN PRINCE ABDULLAH'S WEEKLY MAJLIS ATTRACTS MANY DOZENS TO HUNDREDS OF PETITIONERS MOST OF WHOM RECEIVE SOME GIFT OR ATTENTION TO THEIR PROBLEMS. PRINCES CUSTOMARILY PROVIDE HOSPITALITY, TOO. ONE FORMER EASTERN PROVINCE GOVERNOR, FAHD BIN SALMAN, CLAIMS THAT HE SPENDS IN THE NEIGHBORHOOD OF SR 4 MILLION OUT OF HIS OWN POCKET ON LARGESSE AND FEASTS FOR COMMONERS DURING THE HOLY MONTH OF RAMADAN. HOWEVER, THERE IS A DIFFERENCE BETWEEN APPROPRIATE ROYAL LARGESSE AND GREED. MANY BELIEVE THAT ROYAL GREED HAS GONE BEYOND THE BOUNDS OF REASON, TO INCLUDE WIDESPREAD INTERLOPING ON THE BUSINESS COMMUNITY'S TURF, TRADITIONALLY OFF LIMITS TO ROYALS. (SEE SEPTEL EXAMINATION OF PRINCES IN BUSINESS.) AS LONG AS THE ROYAL FAMILY VIEWS THIS COUNTRY AND ITS OIL WEALTH AS AL SAUD INC., THE THOUSANDS OF PRINCES AND PRINCESSES WILL SEE IT AS THEIR BIRTHRIGHT TO RECEIVE DIVIDEND PAYMENTS AND RAID THE TILL. IT IS OUR VIEW THAT OF THE PRIORITY ISSUES THE COUNTRY FACES, GETTING A GRIP ON ROYAL FAMILY EXCESSES IS AT THE TOP. END SUMMARY AND INTRODUCTION.

THE SYSTEM OF STIPENDS

18. (C) EVERY PRINCE AND PRINCESS FROM BIRTH GETS A MONTHLY ALLOWANCE, WHICH IS PART OF THE STATE BUDGET AND DISTRIBUTED THROUGH AN OFFICE OF THE MINISTRY OF FINANCE CALLED THE "OFFICE OF DECISIONS AND RULES" (IDARAT AL-MUQARRARAT WA AL-QAWA'ID). ECONOFF RECENTLY PAID A COURTESY CALL ON THE OFFICE'S DIRECTOR, ABD AL-AZIZ AL-SHUBAYLI. THE OFFICE, IN AN OLD BUILDING IN WHAT PASSES AS RIYADH'S BANKING DISTRICT, WAS BUSTLING WITH SERVANTS PICKING UP CASH FOR THEIR MASTERS. AL-SHUBAYLI, WHO SPOKE NOT A WORD OF ENGLISH, HOSTED ECONOFF FOR NEARLY TWO HOURS IN AN OPEN-DOOR SESSION THAT WAS INCESSANTLY INTERRUPTED BY PETITIONERS. BASED ON AL-SHUBAYLI'S COMMENTS, ECONOFF'S OBSERVATIONS AND COMMENTS BY A SAUDI FAMILIAR WITH THE ORGANIZATION, THE OFFICE APPEARS TO SERVE AT LEAST THREE FUNCTIONS:

- DISTRIBUTION OF STIPENDS TO THE ROYAL FAMILY.
- DISTRIBUTION OF STIPENDS TO OTHER FAMILIES AND INDIVIDUALS GRANTED MONTHLY STIPENDS IN PERPETUITY. EXAMPLES INCLUDE THE AL AL-SHAHKH FAMILY--DESCENDENTS OF THE ORIGINAL "WAHHABI," MEMBERS OF THE AL-SUDAYRI FAMILY, CADET BRANCHES OF THE ROYAL FAMILY, SUCH AS THE BIN JILUWI--FAMOUS COMRADES-IN-ARMS WITH THE KINGDOM'S FOUNDER ABD AL-AZIZ, AND DESCENDANTS OF INDIVIDUAL SOLDIERS WHO ASSISTED ABD AL-AZIZ IN HIS CONQUEST OF THE ARABIAN PENINSULA.
- FULFILLMENT OF FINANCIAL PROMISES MADE BY SENIOR PRINCES, SUCH AS CROWN PRINCE ABDALLAH OR RIYADH GOVERNOR SALMAN, TO AVERAGE SAUDIS, MOST LIKELY DURING A MAJLIS WHEN NUMEROUS SAUDIS PERSONALLY APPROACH AND PETITION SENIOR LEADERS.

19. (S) THE STREAM OF PETITIONERS INTO AL-SHUBAYLI'S OFFICE DURING THE MEETING GENERALLY WERE OF TWO TYPES: THOSE SEEKING FOLLOW-THROUGH OF A ROYAL COMMITMENT, AND THOSE SEEKING TO VERIFY LEGITIMATE REGISTRATION ON THE ROLES AS RECIPIENTS OF MONTHLY STIPENDS.

10. (S) THE FIRST TYPE INCLUDED MANY PETITIONERS WHO HAD SLIPS OF PAPER WITH ROYAL DIWAN LETTERHEAD CARRYING HAND-SCRAWLED ARABIC INSTRUCTIONS FOR ASSISTANCE. AL-SHUBAYLI GENERALLY GRUDGINGLY APPROVED THESE, BUT IT WAS CLEAR TO ECONOFF THAT AN IMPORTANT PART OF HIS JOB, AT LEAST IN TODAY'S MORE FISCALLY DISCIPLINED ENVIRONMENT, IS TO PLAY THE ROLE OF BAD COP. FOR EXAMPLE, HE INTENSELY AND RUDELY GRILLED A NEARLY BLIND OLD MAN ON WHY AN EYE OPERATION PROMISED BY A PRINCE AND CONFIRMED BY ROYAL DIWAN NOTE

HAD TO BE CONDUCTED OVERSEAS AND NOT FOR FREE IN ONE OF THE FIRST CLASS EYE HOSPITALS IN THE KINGDOM. AFTER LISTENING FOR SOME MINUTES TO THE REQUISITE GROVELING AND PLEADING, AL-SHUBAYLI SIGNED OFF ON THE REQUEST. AFTER THIS PARTICULAR EPISODE, AL-SHUBAYLI TURNED TO ECONOFF AND NOTED THAT HE HAD BEEN IN THE U.S. TWICE FOR MEDICAL TREATMENT HIMSELF, ONCE FOR A CHRONIC ULCER AND ONCE FOR CARPEL TUNNEL SYNDROME. HE CHUCKLED, SUGGESTING THAT BOTH WERE PROBABLY JOB-INDUCED.

¶11. (C) AL-SHUBAYLI HAS BEEN THE ONLY DIRECTOR OF THE OFFICE SINCE ITS CREATION UNDER KING ABD AL-AZIZ ALMOST HALF A CENTURY AGO WHEN IT WAS CALLED THE RIYADH FINANCE OFFICE. HE CLEARLY REALIZES THAT DISCRETION IS KEY TO KEEPING HIS JOB. WHEN ASKED BY ECONOFF WHAT HIS OFFICE DOES, HE SAID "FINANCIAL THINGS, LIKE ANY OFFICE OF THE MINISTRY OF FINANCE." WHEN ASKED WHETHER THE SAG'S AUSTERITY BUDGETS WERE AFFECTING HIS OFFICE, HE INITIALLY JUST ANSWERED, "OF COURSE." HE LATER NOTED THAT THE OFFICE HAD RECENTLY PUT OUT THE WORD THAT ALL RECIPIENTS OF MONTHLY STIPENDS HAD TO COME INTO THE OFFICE TO VERIFY THEIR RIGHT TO BE ON THE ROLLS. HE MENTIONED THAT HE HAD DISCOVERED CASES OF SERVANTS WHO WERE STILL PICKING UP MONTHLY STIPENDS FOR RECIPIENTS WHO HAD DIED. THIS EXPLAINED THE SECOND TYPE OF PETITIONERS PRESENT DURING ECONOFF'S VISIT. ONE SAUDI SUCCESSFULLY VERIFIED HIS RIGHT TO A STIPEND WITH A SERIAL NUMBER FROM THE RIFLE HIS FATHER HAD USED IN BATTLE WITH ABD AL-AZIZ. ANOTHER, WHOM ECONOFF VAGUELY RECOGNIZED, INTRODUCED HIMSELF AS THE SAUDI TV WEATHERMAN. AFTER JOKING ABOUT THE MONOTONY OF HIS JOB--ALWAYS FORECASTING "HOT AND DRY"--HE TOLD ECONOFF THAT HE WAS IN RIYADH TO VERIFY THAT HIS INFIRM UNCLE IN JEDDAH BELONGED ON THE ROLLS.

¶12. (S) EVEN WITH HIS RETICENCE, AL-SHUBAYLI NOTED THE OBVIOUS, THAT THE MOST IMPORTANT FUNCTION OF THE OFFICE IS TAKING FINANCIAL CARE OF ROYALS. WHILE AL-SHUBAYLI REFUSED TO ELABORATE, ACCORDING TO A VARIETY OF SOURCES, ROYAL FAMILY STIPENDS ARE AS FOLLOWS:

- THE REMAINING SONS AND DAUGHTERS OF ABD AL-AZIZ ARE ON INDIVIDUAL PAY SCALES, RANGING FROM ABOUT \$200,000 TO \$270,000 PER MONTH (\$1 EQUALS 3.75 SR).
- GRANDCHILDREN OF ABD AL-AZIZ RECEIVE IN THE RANGE OF \$27,000 PER MONTH, ACCORDING TO ONE CONTACT FAMILIAR WITH THE STIPENDS. PRINCE AL-WALID BIN TALAL TOLD BUSINESS WEEK THAT HE, AS A GRANDSON, RECEIVED ABOUT \$19,000 PER MONTH.
- GREAT GRANDCHILDREN GENERALLY RECEIVE ABOUT \$13,000, AND GREAT GRANDCHILDREN RECEIVE \$8,000 PER MONTH.
- UPON MARRYING, A PRINCE CAN RECEIVE A STIPEND OF ABOUT \$1 - 3 MILLION FOR CONSTRUCTION OF A PALACE, THOUGH THIS GRANT IS NOT AUTOMATIC AND REQUIRES SOME INFLUENCE WITH THE ROYAL DIWAN. MONTHLY STIPENDS ALSO VARY DEPENDING ON WHETHER A ROYAL IS SINGLE OR MARRIED.
- AMOUNTS FOR DISTANT ROYALS OR PRIVILEGED NON-ROYALS IS SUBSTANTIALLY LESS. THE LEAST ONE RECEIVES IS \$800 PER MONTH. A TYPICAL MID-LEVEL MEMBER OF A NON-ROYAL RECIPIENT FAMILY WOULD RECEIVE ABOUT \$5,000 PER MONTH.

¶13. (C) BASED ON THE ABOVE SCALE AND ASSUMING ABOUT 60 REMAINING SONS AND DAUGHTERS OF ABD AL-AZIZ, AND AN AVERAGE 7 CHILDREN PER PARENT (420 GRANDCHILDREN, 2,900 GREAT GRANDCHILDREN, AND PROBABLY ONLY ABOUT 2,000 GREAT GREAT GRANDCHILDREN AT THIS POINT), TOTAL ANNUAL STIPEND PAYMENTS WOULD AMOUNT TO OVER \$2 BILLION. THE STIPENDS ALSO PROVIDE A SUBSTANTIAL INCENTIVE FOR ROYALS TO PROCREATE SINCE THE STIPENDS BEGIN AT BIRTH. A SAUDI WHO RECENTLY ATTENDED PORTLAND STATE UNIVERSITY TOLD ECONOFF THAT THERE IS A PRINCE IN THE SMALL PORTLAND, OREGON SAUDI STUDENTS ASSOCIATION WHO HAS CONVINCED A LOCAL COMMUNITY COLLEGE TO CARRY HIM ON THE ROLLS EVEN THOUGH HE WOULD NEVER ATTEND A CLASS. ACCORDING TO THIS SAUDI, THE PRINCE'S MAIN GOAL IN LIFE IS TO HAVE MORE CHILDREN SO HE CAN INCREASE HIS MONTHLY ALLOWANCE.

OFF-BUDGET PROGRAMS

¶14. (S) WHILE THE STIPEND SYSTEM IS THE OFFICIAL MECHANISM FOR

TAKING CARE OF ROYALS' FINANCIAL NEEDS, IT IS CLEARLY NOT ENOUGH FOR MANY PRINCES, AND SEVERAL OTHER ENRICHING PRACTICES, GENERALLY VIEWED AS CORRUPT, OCCUR. BY FAR THE LARGEST IS LIKELY ROYAL SKIMMING FROM THE APPROXIMATELY \$10 BILLION IN ANNUAL OFF-BUDGET SPENDING CONTROLLED BY A FEW KEY PRINCES, PRIMARILY DEFENSE MINISTER SULTAN. TWO OF THESE PROJECTS--THE TWO HOLY MOSQUES PROJECT (ABOUT \$5 BILLION PER YEAR) AND THE MINISTRY OF DEFENSE'S STRATEGIC STORAGE PROJECT (ABOUT \$1 BILLION PER YEAR)--ARE HIGHLY SECRETIVE, SUBJECT TO NO MINISTRY OF FINANCE OVERSIGHT OR CONTROLS, TRANSACTED THROUGH THE NATIONAL COMMERCIAL BANK (SEE BELOW), AND WIDELY BELIEVED TO BE A SOURCE OF SUBSTANTIAL REVENUES FOR THE KING AND A FEW OF HIS FULL BROTHERS. IN A RECENT MEETING WITH THE AMBASSADOR, SAUDI BILLIONAIRE PRINCE AL-WALID BIN TALAL, ALLUDING TO THESE OFF-BUDGET PROGRAMS, LAMENTED THE TRAVESTY THAT REVENUES FROM "ONE MILLION BARRELS OF OIL PER DAY" GO ENTIRELY TO "FIVE OR SIX PRINCES."

GOING TO THE BANK

¶15. (S) THE TWELVE COMMERCIAL BANKS IN THE COUNTRY ARE GENERALLY LEARY OF LENDING TO ROYALS BECAUSE THE BANKS HAVE LIMITED RE COURSE SHOULD A PRINCE DEFAULT ON A LOAN. NATIONAL COMMERCIAL BANK (NCB) HAS BEEN THE PRIMARY BANK OF THE ROYAL FAMILY FOR MANY YEARS. IN THE LATE 1980S AND EARLY 1990S, NCB'S NON-PERFORMING ROYAL LOAN PROBLEMS WERE SO SEVERE THAT THE BANK NEARLY COLLAPSED. KING FAHD REPORTEDLY INJECTED \$2 BILLION OF PERSONAL FUNDS INTO THE BANK TO RESTORE ITS FINANCIAL INTEGRITY. THE MANAGING DIRECTOR OF A MAJOR BANK IN THE KINGDOM TOLD EMBOFFS THAT HIS BANK, WITH LOANS TO FEWER THAN A DOZEN PRINCES, WAS PROBABLY AT THE LOW END OF THE SPECTRUM IN TERMS OF EXPOSURE TO ROYALS. HE IS CARRYING TWO NON-PERFORMING LOANS--ONE FOR 300 MILLION SR TO PRINCE SATTAM BIN ABD AL-AZIZ, AND ANOTHER SMALLER LOAN TO A SON OF PRINCE SALMAN BIN ABD AL-AZIZ. THE BANK WITH PROBABLY THE LOWEST EXPOSURE TO ROYALS IS THE KINGDOM'S ONLY ISLAMIC BANK--AL-RAJHI. ACCORDING TO ITS TOP OFFICER, THE BANK HAS A STRICT POLICY AGAINST LENDING TO THE AL SAUD. HE SAYS THE BANK HAS ONLY MADE TWO EXCEPTIONS, TO PRINCES WHO HAVE BEEN LONGSTANDING RELIABLE CUSTOMERS OF THE BANK. AT THE HIGH END ARE NCB AND SAUDI AMERICAN BANK (SAMBA). IN ITS LATEST FINANCIAL REPORT, FOR THE THIRD QUARTER OF 1996, SAMBA REPORTED LOWER PROFITS THAN LAST YEAR DUE IN PART TO A 200 MILLION SR PROVISION FOR A BAD LOAN, WHICH, ACCORDING TO A SAMBA OFFICER, IS TO ONE OF THE BROTHERS OF KING FAHD'S WIFE. THE BANKS HAVE THE FREEDOM TO REFUSE DOING BUSINESS WITH ROYALS, BUT BANKS SUCH AS NCB AND SAMBA HAVE HAD A POLICY OF ATTRACTING SUCH "HIGH NET WORTH CLIENTS" TO THEIR PRIVATE BANKING DEPARTMENTS TO ADD PRESTIGE TO THE BANK.

¶16. (S) THE MANAGING DIRECTOR OF A MAJOR BANK IN THE KINGDOM TOLD THE AMBASSADOR THAT HE VIEWS ROYALS IN FOUR TIERS, WHICH DETERMINE HOW HIS BANK DEALS WITH THEM: THE TOP TIER IS THE SENIOR MOST PRINCES, GENERALLY THE MOST WELL-KNOWN SONS OF ABD AL-AZIZ. SOME OF THESE HAVE ACCOUNTS AT THE BANK, BUT, PROBABLY BECAUSE OF THEIR EXORBITANT WEALTH, THEY NEVER ASK THE BANK FOR LOANS. THE SECOND TIER INCLUDES SENIOR PRINCES KNOWN TO BE INCREDIBLY WEALTHY BUT WHO OFTEN SEEK LOANS FROM THE BANK. THE BANK INSISTS THAT SUCH LOANS BE 100 PERCENT COLLATERALIZED BY DEPOSITS IN OTHER ACCOUNTS AT THE BANK. HE SAYS SUCH ARRANGEMENTS HAVE WORKED WELL FOR THE BANK. THE THIRD TIER ARE THE THOUSANDS OF LESSER PRINCES WHOM THE BANK REFUSES TO LEND TO. THE FOURTH TIER, NOT REALLY ROYALS, ARE WHAT THIS BANKER CALLED THE "HANGERS ON"--PEOPLE WHO WORK FOR PRINCES AND WHOSE "CASH FLOWS" CAN CHANGE DRAMATICALLY FROM ONE DAY TO THE NEXT. THESE, HE SAID, HAVE MOST RECENTLY GIVEN THE BANK THE MOST TROUBLE.

¶17. (S) WITH A FEW NOTABLE EXCEPTIONS, THERE IS NOT EXTENSIVE ROYAL OWNERSHIP OF THE TWELVE COMMERCIAL BANKS IN SAUDI ARABIA. PRINCE AL-WALID BIN TALAL IS THE MAJORITY OWNER OF UNITED SAUDI COMMERCIAL BANK AND HE IS TRYING TO ACQUIRE SAUDI CAIRO BANK. RUMORS ARE THAT OTHER PRINCES, JEALOUS OF HIS SUCCESS, ARE TRYING TO BLOCK THE ACQUISITION. THE BANKING COMMUNITY EXPECTS THAT HE WILL MERGE THE TWO BANKS IF HE SUCCESSFULLY ACQUIRES SAUDI CAIRO BANK. A SECOND RUMOR IN THE BANKING COMMUNITY IS THAT THE MONEY BEHIND KHALID BIN MAHFUZ'S RECENT ACQUISITION OF 100 PERCENT OWNERSHIP OF NCB--THE LARGEST BANK IN THE KINGDOM--CAME FROM THE KING'S SON, ABD AL-AZIZ BIN FAHD, WHO IS THE SHADOW OWNER. IT IS

WIDELY VIEWED IN BANKING CIRCLES THAT KHALID BIN MAHFUZ, A FORMER BCCI INDICTEE, COULD NOT HAVE GOTTEN CENTRAL BANK APPROVAL TO FULLY OWN NCB WITHOUT THE MOST SENIOR ROYAL BACKING. SAUDI HOLLANDI BANK IS MAJORITY OWNED BY THE CONGLOMERATE AL-MAWARID, WHICH IN TURN IS OWNED BY PRINCES. THE MAJORITY OWNERS OF THE OTHER BANKS ARE GENERALLY THE LARGE NON-ROYAL BUSINESS FAMILIES IN THE KINGDOM.

LAND GRABS

¶18. (C) STORIES ABOUND OF SOME GREEDY PRINCES EXPROPRIATING LAND FROM COMMONERS. GENERALLY, THE INTENT IS TO RESELL QUICKLY AT HUGE MARKUP TO THE GOVERNMENT FOR AN UPCOMING PROJECT. DISCONTENT OVER ROYAL USURPATION OF LANDS HAS BEEN EXACERBATED BY SAG CUTBACKS IN LAND DISTRIBUTION PROGRAMS WHICH PRIMARILY BENEFITED THE MIDDLE CLASS. FROM THE MID-1970S TO THE LATE 1980S THE SAG UNDERTOOK AN AMBITIOUS, AND POPULAR, LAND GRANT PROGRAM DESIGNED TO SETTLE NOMADIC POPULATIONS AND TO GARNER THE SUPPORT OF THE SAUDI POPULACE. OVER 1.3 MILLION RESIDENTIAL PARCELS WERE DISTRIBUTED FREE OF CHARGE THROUGHOUT THE KINGDOM, WITH LITTLE MORE THAN A PETITION TO THE LOCAL GOVERNOR REQUIRED TO OBTAIN THE DEED. AN EQUALY SUCCESSFUL PROGRAM WAS ADMINISTERED BY ARAMCO, WHOSE ENVIRONS TODAY ARE SURROUNDED BY UPSCALE NEIGHBORHOODS SETTLED BY EMPLOYEES WITH THE HELP OF A COMPANY-DEEDED PIECE OF PROPERTY AND NO-INTEREST LOANS.

¶19. (C) THE LAND GRANT PROGRAM HAS NOW DWINDLED TO AN EPISODIC GESTURE OF ROYAL LARGESSE, PERHAPS BECAUSE THE NUMBER OF GRANTS WAS STRESSING THE GOVERNMENT'S ABILITY TO PROVIDE INFRASTRUCTURE -- WATER, ELECTRICITY, AND ROADS. SIMILARLY, ARAMCO, HAVING DISTRIBUTED OVER 30,000 PLOTS OF LAND, RAN OUT OF DESIRABLE ACREAGE AND NOW OFFERS A LUMP SUM CASH PAYMENT. WHEN COMBINED WITH THE ABSENCE OF MORTGAGE LOANS FROM THE COMMERCIAL BANKS, A DECADE-LONG WAITING LIST FOR A GOVERNMENT HOME LOAN, THE RESULT IS THAT HOME OWNERSHIP IS BECOMING AN ELUSIVE GOAL FOR YOUNG, NON-ROYAL SAUDIS.

¶20. (S) AGAINST THIS BACKDROP, ROYAL LAND SCAMS INCREASINGLY HAVE BECOME A POINT OF PUBLIC CONTENTION. IN THE 1993 "MEMORANDUM OF ADVICE" PETITION SIGNED BY OVER 100 OF THE KINGDOM'S MORE ACTIVIST CLERICS, THE KING WAS URGED TO HALT THE DISTRIBUTION OF LAND, EXCEPT TO THOSE WITH LIMITED INCOMES OR NO PLACE TO LIVE. MINISTER OF DEFENSE SULTAN, HIS SONS, AND THE OFFSPRING OF KING FAHD ARE THE MOST OFT-CITED SENIOR CULPRITS:

- ACCORDING TO A BANKER WHO SAYS HE HAS A COPY OF THE WRITTEN INSTRUCTIONS, DEFENSE MINISTER SULTAN ORDERED LOCAL AUTHORITIES IN THE MECCA AREA TO TRANSFER TO HIS NAME A "WAQF"--RELIGIOUS ENDOWMENT--OF A SMALL PARCEL OF LAND THAT HAD BEEN IN THE HANDS OF ONE FAMILY LITERALLY FOR CENTURIES. THE BANKER NOTED THAT IT WAS THE BRAZENNESS OF THE LETTER, WITH NO EFFORT TO HIDE THE SIMPLE INTENT OF CONFISCATING LAND, THAT WAS PARTICULARLY EGREGIOUS.
- THE KING'S SON, ABD AL-AZIZ BIN FAHD, WAS REPORTEDLY GRANTED THE HUGE EXPANSE OF LAND THAT THE KING KHALID INTERNATIONAL AIRPORT OUTSIDE OF RIYADH WAS BUILT ON FOR RESALE TO THE GOVERNMENT FOR THE PROJECT.
- PRINCE MISHAL BIN ABD AL-AZIZ (ELDER HALF-BROTHER OF SULTAN), WHO ACCESSED TO BEING PASSED OVER IN THE LINE OF SUCCESSION, IS FAMOUS FOR THROWING FENCES UP AROUND VAST STRETCHES OF GOVERNMENT LAND. ONE CONTRACTOR REPORTS BEING ORDERED BY MISHAL TO KEEP EXTENDING THE PERIMETER OF THE FENCE ENCIRCLING HIS DESERT PROPERTY OUTSIDE OF RIYADH UNTIL AN ADDITIONAL 80 SQUARE KILOMETERS OF LAND WERE INCORPORATED INTO HIS PRIVATE ESTATE. LIKEWISE, MISHAL HAS ACQUIRED A 450 SQUARE KILOMETER TRACT ENVELOPING THE KING KHALID MILITARY CITY OUTSIDE OF HAFR AL-BATIN.
- MISHAL'S FULL BROTHER, MITIB BIN ABD AL-AZIZ, IS THE BENEFICIARY OF ALL LAND RECLAMATION PROJECTS ALONG THE ARABIAN GULF. THIS RIGHT WAS GRANTED AFTER MITIB INSISTED THAT HIS FATHER, KING ABD AL-AZIZ, HAD PROMISED HIM ALL OF THE KINGDOM'S FISHERY RIGHTS. THE FAMILY'S COMPROMISE WAS TO CREATE THE NATIONAL FISHERIES COMPANY, OF WHICH MITIB WAS MADE A PARTNER, AND TO CEDE HIM THE RIGHTS TO ALL RECLAIMED LANDS

IN THE EASTERN PROVINCE.

¶21. (S) THE CONFISCATION OF LAND BY SOME GREEDY PRINCES EXTENDS TO BUSINESSES AS WELL. ONE PROMINENT AND WEALTHY SAUDI BUSINESSMAN REPORTS THAT ONE REASON SOME WEALTHY SAUDIS KEEP SO MUCH MONEY INVESTED OUTSIDE OF THE COUNTRY IS BECAUSE THEY DO NOT FACE THE RISK ABROAD OF "ROYAL EXPROPRIATION" OF BUSINESS ASSETS. ACCORDING TO THIS BUSINESSMAN, AS SOON AS A SMALL BUSINESS SHOWS SIGNS OF HIGH GROWTH AND PROFIT POTENTIAL, THE OWNER, PARTICULARLY IF HE IS KNOWN TO BE WELL-OFF, WILL COME UNDER PRESSURE FROM ROYALS TO SELL OR GO INTO PARTNERSHIP. AS A RESULT, MANY OF THE MORE PROMINENT BUSINESSMEN NOW CHOOSE TO USE A LESSER NAME SAUDI AS A SHADOW OWNER OF A BUSINESS TO AVOID DRAWING THE ATTENTION OF BUSINESS-HUNGRY PRINCES.

THE VISA RACKET

¶22. (C) A PHENOMENON OF THE PAST FIVE OR SO YEARS HAS BEEN THE ROYAL SPONSORSHIP OF EXPATRIATE LABOR FOR PROFIT. EVERY FOREIGN WORKER IN THE COUNTRY HAS TO BE SPONSORED BY A SAUDI TO OBTAIN AN IQAMA--RESIDENCE PERMIT. PERMISSION TO SPONSOR FOREIGN WORKERS IS GRANTED BY THE MINISTRY OF LABOR. THE AVERAGE SAUDI CAN SPONSOR FIVE OR SO, ENOUGH TO HIRE MAIDS, NANNIES, AND DRIVERS. BUSINESSMEN CAN GENERALLY GET PERMISSION TO HIRE EXPATS TO FILL JOBS IN THEIR COMPANIES, ALTHOUGH THIS IS GETTING HARDER WITH THE SAG PUSH TO SAUDIIZE THE WORKFORCE. ROYALS CAN GET PERMISSION FROM THE MINISTRY TO SPONSOR SEEMINGLY UNLIMITED NUMBERS OF EXPATS, EVEN THOUGH THEY HAVE NO WORK FOR THEM.

¶23. (C) IT IS COMMON FOR A PRINCE TO SPONSOR A HUNDRED OR MORE FOREIGNERS, KNOWN HERE AS "FREELANCERS," WHO ARE ALLOWED TO FIND THEIR OWN JOBS, MOST OFTEN AS SERVANTS OR UNSKILLED LABORERS. IN EXCHANGE FOR THE PRIVILEGE OF BEING IN SAUDI ARABIA, THESE FOREIGNERS PAY THEIR ROYAL SPONSOR A NOMINAL FEE--\$30 TO \$150 PER MONTH, WHICH ADDS UP TO A SUBSTANTIAL TAKE FOR SOMEONE SPONSORING OVER A HUNDRED EXPATS--ON AVERAGE ABOUT \$10,000 PER MONTH PER 100 EXPATS UNDER SPONSORSHIP.

¶24. (C) WE BELIEVE THAT THIS PRACTICE WAS LARGELY BEHIND THE RAPID GROWTH IN THE EXPATRIATE POPULATION, FROM ABOUT 4.2 MILLION TO 6.5 MILLION, BETWEEN 1992 AND 1995. WITH THE ECONOMY GROWING AT 1 PERCENT OR LESS DURING THOSE YEARS, JOB EXPANSION WAS NOT JUSTIFYING THE RAPID EXPATRIATE POPULATION GROWTH. IN JANUARY 1995, THE SAG RAISED THE PRICE FOR A 2-YEAR IQAMA TO A HEFTY 2,000 SR (\$533). THIS COMBINED WITH THE COST OF HOMEWARD PASSAGE FOR WORKERS WHICH MUST BE BORNE BY SPONSORS IS NOW MAKING IT UNECONOMICAL TO ENGAGE IN THE WIDESPREAD SPONSORSHIP OF FREELANCERS, AND WE BELIEVE THAT THE EXPAT POPULATION HAS LEVELED OFF OR IS IN DECLINE AS A RESULT. ONE INDICATION OF THIS IS THAT THE CENTRAL BANK HAS REPORTED THAT EXPATRIATE WORKER REMITTANCES ARE DOWN FROM \$12 BILLION IN THE FIRST 9 MONTHS OF 1995 TO \$9.9 BILLION FOR THE SAME PERIOD IN 1996.

PRINCES BETTER AT SPENDING THAN SAVING

¶25. (S) ALL THE WEALTH THAT HAS BEEN DISTRIBUTED TO PRINCES OVER THE PAST 20 YEARS HAS NOT CREATED A SIGNIFICANT NUMBER OF SUPER-RICH PRINCES. THERE ARE MORE NON-ROYAL BILLIONAIRES THAN ROYAL ONES. THE HEADS OF THE BIG BUSINESS FAMILIES--AL-JOMAIH, AL-JUFFALI, BIN MAHFUZ, AL-RAJHI, OLAYAN, JAMEEL, AL-RASHID, FOR EXAMPLE--ARE KNOWN BILLIONAIRES WHILE ONLY A HANDFUL OF PRINCES ARE IN THE SAME LEAGUE. THE LONE EXCEPTION OF A PRINCE WHO HAS TURNED HIS SEED MONEY INTO A MULTI-BILLION DOLLAR EMPIRE IS AL-WALID BIN TALAL--THE SON OF AN OUTCAST SON OF ABD AL-AZIZ. WE CALCULATE THAT HIS FOREIGN AND DOMESTIC INVESTMENTS GIVE HIM A NET WORTH OF ABOUT \$13 BILLION. THE OTHER BILLIONAIRE PRINCES AND OUR ESTIMATE OF THEIR WORTH ARE KING FAHD -- \$10 BILLION, DEFENSE MINISTER PRINCE SULTAN -- \$10 BILLION, AND HIS SON KHALID BIN SULTAN -- \$2 BILLION.

COMMENT: AL SAUD INC. -- NO END IN SIGHT

¶26. (S) WHILE ROYALTY HERE IS EXPECTED TO HAVE WEALTH AND THE TRAPPINGS OF POWER TO A CERTAIN DEGREE, THERE IS A BROAD SENTIMENT THAT ROYAL GREED HAS GONE BEYOND THE BOUNDS OF REASON. ROYAL EXCESS IS A COMMON TOPIC OF CONVERSATION AMONG NON-ROYAL SAUDIS AND EXPATRIATES ALIKE. PALACE CONSTRUCTION, KNOWN TO BE FINANCED FOR EVERY PRINCE THROUGH THE STIPEND SYSTEM, IS A VISIBLE SIGN OF SUCH EXCESS. ONE PALACE IN DOWNTOWN RIYADH HAS NEVER BEEN OCCUPIED BECAUSE THE ROYAL BUILDER SIMPLY DIDN'T LIKE IT. IT NOW STANDS AS A MONOLITHIC REMINDER OF CONSPICUOUS CONSUMPTION. SUCH EXCESSES WERE TOLERABLE WHEN THE ECONOMIC TIDE WAS RISING FOR EVERYONE. NOW, WITH FLAT PER CAPITA GDP AND A GENERAL SENSE THAT QUALITY OF LIFE IS DECLINING FOR THE AVERAGE SAUDI, THE TRANSFER OF SO MUCH STATE WEALTH IS RESENTED AND ONE OF THE COMBUSTIBLE MIXES BESETTING SAUDI ARABIA'S FUTURE. AS IF THIS WEREN'T ENOUGH, THE ROYAL FAMILY IS INCREASINGLY ALIENATING THE MERCHANT CLASS (AS EXAMINED SEPTEL) VIA PERVERSIVE VIOLATION OF A DICTUM BY THE KINGDOM'S FOUNDER, ABD AL-AZIZ, THAT ROYALS STAY OUT OF BUSINESS.

¶27. (S) THERE IS SOME SENTIMENT THAT CROWN PRINCE ABDALLAH, AS KING, WOULD INTERCEDE TO ROLL BACK THE ROYAL TAKE. IT IS NOT CLEAR YET, HOWEVER, THAT HE WOULD HAVE THE POWER OR INCLINATION TO MAKE SWEEPING CHANGES, BY, FOR EXAMPLE, ELIMINATING OFF-BUDGET PROGRAMS OR EVEN CURTAILING THE STIPEND SYSTEM. EVEN WITH STIPEND AMOUNTS REMAINING FLAT, DISBURSEMENTS ARE GROWING WITH THE HIGH POPULATION GROWTH OF THE ROYAL FAMILY. SUCH CUTTING BACK INTERNALLY MIGHT FURTHER FRACTURE THE RULING CLAN.

¶28. (S) IT IS OUR ASSESSMENT THAT OF THE PRIORITY ISSUES THE COUNTRY FACES, GETTING A GRIP ON ROYAL FAMILY EXCESSES IS AT THE TOP. BUT AS LONG AS THE ROYAL FAMILY VIEWS THIS COUNTRY AS "AL SAUD INC.," EVER INCREASING NUMBERS OF PRINCES AND PRINCESSES WILL SEE IT AS THEIR BIRTHRIGHT TO RECEIVE LAVISH DIVIDEND PAYMENTS, AND DIP INTO THE TILL FROM TIME TO TIME, BY SHEER VIRTUE OF COMPANY OWNERSHIP.

FOWLER